

Internal Revenue Service

Department of the Treasury

District  
Director

1100 Commerce St., Dallas, Texas 75242

Person to Contact:

Telephone Number:

Refer Reply to:

Date:

SEP 03 1981

Dear Applicant:

We have considered your exemption application under section 501(c)(7) of the Internal Revenue Code.

The evidence presented discloses that you were incorporated [REDACTED] under the laws of the State of [REDACTED]. Your purposes briefly stated are; "to maintain and conduct activities of a social, fraternal and recreational nature to serve the community", however, in a subsequent telephone conversation on [REDACTED], it was disclosed that the only activity is running a bar. This bar has been owned and operated by [REDACTED] from [REDACTED] until they incorporated [REDACTED]. They stated that the reason for creating a non profit corporation in State of [REDACTED] was to secure a mixed drink license, such licenses are only issued to non profit organizations in the State of [REDACTED]. Organization is paying rent on building to [REDACTED], and also paying salaries to [REDACTED] and her son [REDACTED]. These three are the only officers and directors of the organization. There are no provisions, for them being succeeded by other members. Officers are elected by the board of directors.

There are no stringent rules and regulations for becoming a member of the club. The basic requirements are that members be approved by the board of directors and "sponsored" by a member in good standing or a director, and pay the annual dues of \$[REDACTED]. No waiting period is mentioned. The board of directors may suspend or expel a member for cause without submitting the matter to the vote of the membership, membership is open to the public.

The Internal Revenue Regulations, 1.501(c)(7)-1(a) states in part: "section (c)(7) applies only to clubs which are organized and operated for pleasure, recreation, and other non profitable purposes, but does not apply to any club if any part of its net earnings inures to the benefit of any private shareholder."

The term "club" as used in section 501(c)(7) implies the existence of personal contact, commingling and fellowship among the member. Revenue Ruling 55-716. It presupposes the existence of a objective between members, passive association is not enough. Members must be joined by a mutuality of active interest or shared goals justifying the existence of the organization. If there are no prerequisite conditions or limitations imposed on members, the organization cannot possess an identity of purpose which would characterize it as a club.

[REDACTED]

The court used that rationale in denying exemption to a health club. The only restrictions dealt with age, race, freedom from disease, and ability to pay the fees. *Arner V. Rogan*, 40-2 USTC 9567, 27 AFTR 1092.

Regulations 1.501(c)(7)-(b) states in part: "A club which engages in business, such as making its social and recreational facilities available to the public or by selling real estate, timber, or other products, is not organized and operated exclusively for pleasure, recreation, and other non-profitable purposes, and is not exempt under section 501(c)(7)."

Regulations 1.501(c)(7)1(b) describes your organization because your only activity is operating a bar which is open seven days a week, membership to this organization is open to the public. We are unable to differentiate between your organization and a business operated for profit.

Revenue Ruling 66-360 states: "When a national sorority is created and controlled by a business corporation engaged in furnishing services and supplies to the sorority and its member chapters, neither the sorority nor its chapters can qualify for exemption under section 501(c)(7)."

This corporation relates to Revenue Ruling 66-360. Through their status as officers, directors, landlord, manager, and employees, the [REDACTED] family will effectively control the corporation.

The primary reason for the clubs existence is to obtain a mixed drink license. A club of this type would appear to have no common objective or shared goal to justify the clubs existence. In view of the membership requirements, the nominal dues, and absence of initiation fees, the only justification for the clubs existence appears to be to acquire a mixed drink license from the State of [REDACTED].

It is held that you are not organized and will not be operated exclusively for pleasure, recreation, and other non profitable purposes within the meaning of section 501(c)(7) of the Code and applicable regulations. Therefore you are not exempt from Federal income tax under Section 501(c)(7) of the Internal Revenue code. Therefore, you are required to file Federal income tax returns on Form 1120.

If you do not agree with these conclusions, you may, within 30 days from the date of this letter, file in duplicate a brief of the facts, law, and argument that clearly sets forth your position. If you desire an oral discussion of the issue, please indicate this in your protest. The enclosed Publication 892 gives instructions for filing a protest.

If you do not file a protest with this office within 30 days of the date of this report or letter, this proposed determination will become final.

[REDACTED]

If you have any further questions, please contact the person whose name and telephone number are shown at the beginning of this letter.

Sincerely yours

[REDACTED]  
District Director

Enclosures:  
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